

AS PREPARED FOR DELIVERY



Economic Prospects for the Caribbean

by

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I. INTRODUCTION

I am delighted to be part of this important exchange and thank the Council, particularly The Rt. Hon. Lord Foulkes of Cumnock, for this opportunity.

Ladies and Gentlemen, I have been asked to speak on the topic “Economic Prospects for the Caribbean” and will share with you: some of the development challenges being faced by the borrowing member countries of the Caribbean Development Bank (CDB), of which there are 19; the progress being made in addressing these challenges; the role of the CDB in assisting that process, and finally; some opportunities for UK companies in the transformation process that is now underway in our region.

II. THE CONTEXT

Mr. Chairman, as it is with our countries and our varied cultures, so is it also with our countries - similar in many respects, but quite different in important ways.

Naturally, this presents a classification difficulty. So, in the time available, I have opted for simplicity, and chosen to group our countries into those which are primarily commodity-based and non-commodity or services-based exporters.

Most informed observers of Caribbean affairs would agree that our small, open, island and/or coastal countries are extremely vulnerable to both economic and weather-related shocks. The probability of our region being hit, each year, by a natural disaster is as high as 10-24%; and the annual economic cost of damage from natural hazards is around 1% of GDP. The frequency with which we must replace this damaged infrastructure represents a considerable drag on our economic

growth performance. The experts warn us that these already fearsome odds will worsen if the world does not take climate change more seriously.

Most of our countries are heavily dependent on imported fossil fuels to produce the energy needed to run businesses and households. Since the first oil shock of the early 1970s, this vulnerability to volatile oil prices has contributed hugely to the competitiveness challenges of Caribbean industries. It has also been a principal cause of unsustainable balance of payments and sovereign indebtedness problems.

Ironically, this is happening in countries which are, for the most part, not energy poor, and have sizeable endowments of hydro, geo-thermal, wind and, yes, sunshine energy!

So, our economic progress has been hampered by external factors.

However, there is no question that, in addition to the impact of external factors, our region's progress has also been hindered by inconsistent adherence to sound macro-economic management and to insufficient attention to the development of business-friendly conditions.

Against this backdrop, what is the “state of play” in the Caribbean economies? How would we characterise our business climate, generally?

Coming out of the Great Recession, recovery in global tourism has been slow. Many of our tourism-dependent economies, like Barbados, have been adversely affected and are lagging in their recovery efforts, with very low, or no economic growth. Several borrowing member countries (BMCs) in this category also face challenges with new developments in their off-shore financial sectors.

Commodity exporters, like Belize and Suriname, have enjoyed much higher growth rates (2% - 5%), undergirded by buoyancy in international commodity prices.

For CDB's BMCs, as a whole, fiscal deficits currently average around 4% of GDP; and sovereign indebtedness is about 70% of GDP and need to be addressed with greater urgency.

Turning to the business climate, all of the credible sources confirm that Caribbean countries, in both the services and commodity categories, do not compare well with other countries. Inadequate transportation, telecommunications and logistics infrastructure; insufficient access to affordable credit; bureaucratic red-tape; low productivity; and high energy costs are the biggest constraints to our region's competitiveness.

Mr. Chairman, the challenges which I have addressed this morning did not begin with the Great Recession. What that crisis did, though, was bring greater cohesion and consensus among policymakers about the way forward. It helped us to appreciate the significance of former US Treasury Secretary, Tim Geitner's observation that "You never want a good crisis to go to waste."

The reform process has been underway in several Caribbean countries since 2009, aided by the CDB and other multilateral and bilateral institutions, like the UK's Department for International Development (DFID). Despite setbacks and reversals, in some instances, the process is now deepening; and greater emphasis is being placed on fiscal rules to limit governments' ability to create fiscal deficits and debt.

Increased emphasis is also being placed on introducing structural benchmarks, entrenched in legislation, to improve the business climate and enhance the ease of doing business.

Are we succeeding?

In St. Kitts and Nevis, CDB, working with that government and the IMF, provided a guarantee to facilitate a debt swap with creditors. The debt-to-GDP ratio dropped from nearly 180% to the current level of 100%. Further debt relief was provided when CDB exchanged some of its higher priced loans with ‘softer’ financing. Economic growth has now returned; and the fiscal accounts are much healthier.

The IMF, the World Bank and CDB are now working with Grenada to introduce similar reforms to those in St. Kitts and Nevis to achieve comparable results.

Jamaica, one of CDB’s largest BMCs and one to which we have provided substantial assistance, is making encouraging progress in tackling long-standing weaknesses in fiscal and debt management. The progress achieved in the first year of the current programme is, arguably, unprecedented in Jamaica’s history. Especially noteworthy is that, in the last fiscal year, the national parliament passed approximately 40 pieces of legislation, the majority relating to improving the business climate.

To achieve greater climate resilience, several countries are now collaborating with CDB and other development partners to climate-proof our shorelines by building sea defenses, and retro-fitting roads and other infrastructure to enable them to endure the now harsher climate conditions. CDB is also working with Canada’s Department of Foreign Affairs, Trade and Development (DFATD), DFID, and the European Union to create more climate-resilient communities for our populations.

III. ROLE OF ECONOMIC GROWTH

Mr. Chairman, fiscal rectitude, desirable as it is, cannot be sustained without economic growth. The Caribbean, therefore, will need to “change the wheels while the bus is moving.”

In short, as we push the reform agenda, we must simultaneously create opportunities for new growth-inducing investments.

Because of the absence of fiscal space, few Caribbean governments can pursue an aggressive public sector investment programme using their own balance sheets. But, with the reform process now taking root in the Caribbean, there are now good prospects for a solid partnership between governments and the UK's private sector. Time will only permit me to give you a few samples of the opportunities.

Over the next 10 years, some USD30 billion will be required to modernise and enhance the efficiency of the power, transportation, telecommunications, and water and wastewater sectors. In the energy sector alone, massive investment will be needed to replace obsolete and inefficient generating plant over the next five years and to transform the electricity supply infrastructure so that the region's vast renewable energy potential can be exploited. And, with regional electricity prices being four times higher than those in the United States, energy efficiency is "low hanging fruit" for businesses.

With the imminent expansion of the Panama Canal, several Caribbean countries are strategically located to serve as logistic hubs for the mega-ships which will enter the region via the expanded canal.

IV. PUBLIC PRIVATE PARTNERSHIPS (PPP)

To engage with the countries, there are several approaches which we encourage. Some of our BMCs, for example, have developed their own capacity to manage the Public Private Partnership model. This can be an effective mechanism for introducing private capital in areas of economic or social activity which were traditionally the preserve of governments.

CDB is building in-house PPP capacity to assist its smaller borrowing member countries to access capital via this route.

We look forward to helping you to identify opportunities for doing business in one of the world's most strategically positioned regions, located in the middle of some of the busiest trade routes and in close proximity to North, South and Central America.

Mr. Chairman, I thank you!